

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MUD CREEK WATER	)	
DISTRICT AND BEAVER ELKHORN WATER	)	CASE NO. 99-375
DISTRICT FOR APPROVAL OF MERGER	)	
AGREEMENT	)	

ORDER

Mud Creek Water District ( Mud Creek ) and Beaver Elkhorn Water District ( Beaver Elkhorn ) (collectively the Joint Applicants ) have applied, pursuant to KRS 74.363 and KRS 278.020, for Commission approval of their proposed merger and the formation of Southern Water and Sewer District ( Southern District ).

Having considered the application and the evidence of record, the Commission finds that:

1. Beaver Elkhorn is a water district organized pursuant to KRS Chapter 74.
2. As of December 31, 1998, Beaver Elkhorn provided water service to approximately 2,610 customers in Floyd and Knott counties, Kentucky.
3. As of December 31, 1998, Beaver Elkhorn had total utility plant of \$10,204,060.
4. As of December 31, 1998, Beaver Elkhorn had total assets and other debits of \$10,631,746 and total liabilities of \$4,196,812.
5. For the operating year ended December 31, 1998, Beaver Elkhorn had a net income of \$16,804 based upon total operating revenues and other income of \$889,573.

6. As of December 31, 1998, Beaver Elkhorn had long-term debt of \$3,922,237 and short-term debt of \$94,165.

7. A three-member board of commissioners manages Beaver Elkhorn.

8. Beaver Elkhorn currently employs 19 persons to operate its water production and distribution systems.

9. Beaver Elkhorn operates its own water production facilities that provide Beaver Elkhorn's total water requirements.

10. Beaver Elkhorn does not currently provide any sanitary sewer service; nor does it own or operate any sewage treatment or collection facilities.

11. Mud Creek is a water district organized pursuant to KRS Chapter 74.

12. As of December 31, 1998, Mud Creek provided water service to approximately 1,020 customers in Floyd County, Kentucky.

13. As of December 31, 1998, Mud Creek had total utility plant of \$816,644.

14. As of December 31, 1998, Mud Creek had total assets and other debits of \$896,254 and total liabilities of \$303,272.

15. For the operating year ended December 31, 1998, Mud Creek had a net income of \$(32,167) based upon total operating revenues and other income of \$325,973.

16. As of December 31, 1998, Mud Creek had no long-term debt and short-term debt of \$3,005.

17. A three-member board of commissioners manages Mud Creek.

18. Mud Creek currently employs 4 persons to operate its water distribution system.

19. Mud Creek does not operate any water production facilities, but purchases its total water requirements from the city of Pikeville, Kentucky.

20. Mud Creek does not currently provide any sanitary sewer service nor does it own or operate any sewage treatment or collection facilities.

21. The territories of Beaver Elkhorn and Mud Creek are adjacent to each other.

22. On August 26, 1999, the Joint Applicants executed a Merger Agreement.

23. Under the terms of the Merger Agreement, the Joint Applicants will merge to form Southern District. Southern District will be divided into two divisions. Division 1 will consist of all territory that Beaver Elkhorn currently serves. Division 2 will consist of all territory that Mud Creek currently serves. The Joint Applicants expect that Southern District's two divisions will be merged within one year of the consolidated district's operation.

24. The proposed merger will result in no immediate change in existing rates for water service. Division 1 will charge the rates that Beaver Elkhorn currently charges. Division 2 will charge the rates that Mud Creek currently charges.

25. The Joint Applicants expect Southern District to seek Commission approval of a unified rate for all customers no later than March 1, 2001.

26. Upon beginning operation, Southern District will employ all of the Joint Applicants' current employees.

27. The proposed Southern District will assume all assets and liabilities of the Joint Applicants.

28. The Joint Applicants have identified several areas, including purchased water costs and personnel costs, in which they expect the proposed merger will produce lower operating costs due to greater economies of scale.

29. The current level of service provided by the Joint Applicants will not suffer as a result of the proposed merger and formation of Southern District.

30. Southern District has the financial, technical, and managerial abilities to provide reasonable service.

31. KRS 74.361 provides:

[R]eduction of the number of operating water districts in the Commonwealth will be in the public interest, in that mergers of such districts will tend to eliminate wasteful duplication of costs and efforts, result in a sounder and more businesslike degree of management, and ultimately result in greater economies, less cost, and a higher degree of service to the general public; and that the public policy favors the merger of water districts wherever feasible.

32. The proposed merger is consistent with the objectives set forth in KRS 74.361.

33. The proposed merger is made in accordance with law, is for a proper purpose, and is consistent with the public interest.

IT IS THEREFORE ORDERED that:

1. The proposed merger is approved.

2. Upon completion of the proposed merger, Southern District shall immediately advise the Commission of the merger and shall file an adoption notice, adopting, ratifying and making its own all rates, rules, classifications and administrative regulations of the Joint Applicants in effect at the time of the merger.

3. Within 10 days after the filing of its adoption notice, Southern District shall issue and file in its own name rate schedules and administrative regulations which shall set out the Joint Applicants rates and administrative regulations then in effect in accordance with Administrative Regulation 807 KAR 5:011.

4. Beaver Elkhorn and Mud Creek shall each file a separate annual report of their operations for calendar year 1999.

5. Southern District shall file with the Commission a copy of all ordinances and resolutions enacted by Floyd County and Knott County Fiscal Courts to effect the proposed merger.

Done at Frankfort, Kentucky, this 16<sup>th</sup> day of December, 1999.

By the Commission

ATTEST:

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Executive Director